# SOUTH CHINA HOLDINGS COMPANY LIMITED

# 南華集團控股有限公司

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 00413)**

## INTERIM REPORT
## FOR THE SIX MONTHS ENDED 30 JUNE 2018

The board of directors (the "Board") of South China Holdings Company Limited (the "Company") is pleased to present the unaudited condensed consolidated financial statements of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2018. The unaudited condensed consolidated financial statements have been reviewed by the audit committee of the Company.

### CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

| | | Six months ended 30 June | |
|---|---|---|---|
| | | **2018** | 2017 |
| | | **Unaudited** | Unaudited |
| | *Note* | ***HK$'000*** | *HK$'000* |
| **Revenue** | *2* | **1,470,947** | 1,356,070 |
| Cost of sales | | **(1,324,644)** | (1,147,731) |
| Gross profit | | **146,303** | 208,339 |
| Other income and gains, net | | **31,915** | 18,667 |
| Fair value gain on investment properties inclusive of investment properties presented as non-current assets classified as held for sale | | **202,638** | 161,795 |
| Fair value loss on financial assets at fair value through profit or loss | | **(3,941)** | (3,390) |
| Selling and distribution expenses | | **(29,813)** | (23,661) |
| Administrative expenses | | **(256,242)** | (247,164) |
| Equity-settled share award expense | | **(1,396)** | (2,940) |
| **Profit from operations** | *2&3* | **89,464** | 111,646 |
| Finance costs | | **(66,299)** | (61,512) |
| Share of profits and losses of associates | | **(12)** | (620) |
| Share of profits and losses of joint ventures | | **(6)** | – |
| Reversal of impairment of advances to an associate | | **–** | 1 |
| **Profit before tax** | | **23,147** | 49,515 |
| Income tax | *4* | **(12,675)** | (12,270) |
| **Profit for the period** | | **10,472** | 37,245 |

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS (Continued)**

| | Note | Six months ended 30 June **2018** Unaudited *HK$'000* | 2017 Unaudited *HK$'000* |
|---|---|---|---|
| Attributable to: | | | |
| Equity shareholders of the Company | | **10,246** | 42,605 |
| Non-controlling interests | | **226** | (5,360) |
| | | **10,472** | 37,245 |
| **Earnings per share** | *6* | | |
| **Basic** | | **HK0.1 cents** | HK0.3 cents |
| **Diluted** | | **HK0.1 cents** | HK0.3 cents |

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | **Unaudited** | Unaudited |
| | ***HK$'000*** | *HK$'000* |
| **Profit for the period** | **10,472** | 37,245 |
| **Other comprehensive income:** | | |
| *Items that may be reclassified to profit or loss in subsequent periods:* | | |
| Available-for-sale financial assets: | | |
| Changes in fair value | **–** | 532 |
| | **–** | 532 |
| Exchange differences on translation of operations outside Hong Kong | **(65,397)** | 133,712 |
| Share of other comprehensive income of associates | **(284)** | 252 |
| **Other comprehensive income for the period** | **(65,681)** | 134,496 |
| **Total comprehensive income for the period** | **(55,209)** | 171,741 |
| Attributable to: | | |
| Equity shareholders of the Company | **(49,132)** | 163,924 |
| Non-controlling interests | **(6,077)** | 7,817 |
| | **(55,209)** | 171,741 |

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

| | *Note* | **As at 30 June 2018 Unaudited *HK$'000*** | As at 31 December 2017 Audited *HK$'000* |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | | **186,779** | 180,565 |
| Investment properties | *7* | **7,810,379** | 6,062,534 |
| Prepaid land lease payments | | **81,284** | 82,969 |
| Construction in progress | | **155,393** | 158,003 |
| Investments in associates | | **22** | 1,374 |
| Investments in joint ventures | | **2,250** | – |
| Bearer plants | | **61,502** | 63,536 |
| Available-for-sale financial assets | | **106,108** | 106,902 |
| Prepayments and deposits | | **19,414** | 20,958 |
| Goodwill | | **3,084** | 3,106 |
| Other non-current assets | | **15,255** | 15,638 |
| Total non-current assets | | **8,441,470** | 6,695,585 |
| **CURRENT ASSETS** | | | |
| Inventories | | **826,189** | 577,305 |
| Properties under development | | **1,720,579** | 1,597,326 |
| Trade receivables | *8* | **567,723** | 538,310 |
| Prepayments, deposits and other receivables | | **831,573** | 792,500 |
| Financial assets at fair value through profit or loss | | **22,153** | 51,710 |
| Amounts due from non-controlling shareholders of subsidiaries | | **55,434** | 56,153 |
| Tax recoverable | | **65,439** | 57,300 |
| Cash and bank balances | | **545,450** | 713,029 |
| | | **4,634,540** | 4,383,633 |
| Non-current assets classified as held for sale | *7* | **268,433** | 1,883,000 |
| Total current assets | | **4,902,973** | 6,266,633 |

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)**

| | Note | **As at 30 June 2018 Unaudited** ***HK$'000*** | As at 31 December 2017 Audited *HK$'000* |
|---|---|---|---|
| **CURRENT LIABILITIES** | | | |
| Trade payables | *9* | **627,240** | 668,987 |
| Other payables and accruals | | **999,426** | 787,536 |
| Interest-bearing bank borrowings | | **1,886,532** | 1,744,489 |
| Financial liabilities at fair value through profit or loss | | **116,062** | – |
| Amounts due to non-controlling shareholders of subsidiaries | | **6,622** | 5,221 |
| Amount due to a related party | | **83,355** | – |
| Tax payable | | **47,535** | 54,998 |
| Total current liabilities | | **3,766,772** | 3,261,231 |
| **NET CURRENT ASSETS** | | **1,136,201** | 3,005,402 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **9,577,671** | 9,700,987 |
| **NON-CURRENT LIABILITIES** | | | |
| Interest-bearing bank borrowings | | **2,513,018** | 2,577,109 |
| Advances from non-controlling shareholders of subsidiaries | | **7,941** | 7,941 |
| Other non-current liabilities | | **73,388** | 74,323 |
| Deferred tax liabilities | | **904,545** | 904,094 |
| Total non-current liabilities | | **3,498,892** | 3,563,467 |
| **NET ASSETS** | | **6,078,779** | 6,137,520 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | *10* | **140,299** | 140,423 |
| Reserves | | **5,572,482** | 5,625,022 |
| Total equity attributable to equity shareholders of the Company | | **5,712,781** | 5,765,445 |
| Non-controlling interests | | **365,998** | 372,075 |
| **TOTAL EQUITY** | | **6,078,779** | 6,137,520 |

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Note | Issued capital and share premium Unaudited *HK$'000* | Shares held for share award scheme Unaudited *HK$'000* | Treasury shares Unaudited *HK$'000* | Other reserves Unaudited *HK$'000* | Retained profits Unaudited *HK$'000* | Attributable to owners of the Company Unaudited *HK$'000* | Non-controlling interests Unaudited *HK$'000* | Total equity Unaudited *HK$'000* |
|---|---|---|---|---|---|---|---|---|---|
| **At 31 December 2017** | | **1,856,990** | **(61,075)** | **(10,837)** | **(747,379)** | **4,727,746** | **5,765,445** | **372,075** | **6,137,520** |
| **Impact on initial application of HKFRS 9** | *1.1* | **–** | **–** | **–** | **(89,307)** | **89,307** | **–** | **–** | **–** |
| **As adjusted at 1 January 2018** | | **1,856,990** | **(61,075)** | **(10,837)** | **(836,686)** | **4,817,053** | **5,765,445** | **372,075** | **6,137,520** |
| **Redemption of redeemable convertible preference shares** | | **(4,928)** | **–** | **–** | **–** | **–** | **(4,928)** | **–** | **(4,928)** |
| **Transfer of employee share-based compensation reserve upon forfeiture of share award and share option** | | **–** | **–** | **–** | **(5,266)** | **5,266** | **–** | **–** | **–** |
| **Recognition of equity-settled share-based compensation: share award and option** | | **–** | **–** | **–** | **1,396** | **–** | **1,396** | **–** | **1,396** |
| **Total comprehensive income for the period** | | **–** | **–** | **–** | **(59,378)** | **10,246** | **(49,132)** | **(6,077)** | **(55,209)** |
| **At 30 June 2018** | | **1,852,062** | **(61,075)** | **(10,837)** | **(899,934)** | **4,832,565** | **5,712,781** | **365,998** | **6,078,779** |
| At 1 January 2017 | | 1,868,458 | (61,447) | (10,837) | (1,036,049) | 4,441,175 | 5,201,300 | 319,271 | 5,520,571 |
| Redemption of redeemable convertible preference shares | | (4,467) | – | – | – | – | (4,467) | – | (4,467) |
| Transfer of employee share-based compensation reserve upon forfeiture of share award and share option | | – | – | – | (1,291) | 1,291 | – | – | – |
| Recognition of equity-settled share-based compensation: share award and option | | – | – | – | 2,940 | – | 2,940 | – | 2,940 |
| Total comprehensive income for the period | | – | – | – | 121,319 | 42,605 | 163,924 | 7,817 | 171,741 |
| At 30 June 2017 | | 1,863,991 | (61,447) | (10,837) | (913,081) | 4,485,071 | 5,363,697 | 327,088 | 5,690,785 |

*Note:* The Group has initially applied HKFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated. See Note 1.1.

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | **Unaudited** | Unaudited |
| | ***HK$'000*** | *HK$'000* |
| **Cash flows from operating activities** | | |
| Cash used in operations | **(251,752)** | (355,830) |
| Hong Kong Profit Tax refund/(paid) | **552** | (15,163) |
| The People's Republic of China ("PRC") enterprise income tax paid | **(16,856)** | (8,525) |
| **Net cash used in operating activities** | **(268,056)** | (379,518) |
| **Cash flows from investing activities** | | |
| Purchase of items of property, plant and equipment | **(20,605)** | (14,175) |
| Additions of prepaid lease payments | **(30,048)** | (28,784) |
| Other cash flows arising from investing activities | **80,867** | (7,450) |
| **Net cash generated from/(used in) investing activities** | **30,214** | (50,409) |
| **Cash flows from financing activities** | | |
| New bank loans | **1,138,063** | 1,925,725 |
| Repayment of bank loans | **(1,105,159)** | (1,610,813) |
| Interests and other borrowing costs paid | **(81,146)** | (74,686) |
| Other cash flows arising from financing activities | **123,467** | 115,063 |
| **Net cash generated from financing activities** | **75,225** | 355,289 |
| Net decrease in cash and cash equivalents | **(162,617)** | (74,638) |
| Cash and cash equivalents at beginning of the period | **672,798** | 459,302 |
| Effect of foreign exchange rate changes, net | **(3,094)** | 4,416 |
| Cash and cash equivalents at end of the period | **507,087** | 389,080 |
| **Analysis of balances of cash and cash equivalents** | | |
| Cash and bank balances | **545,450** | 433,746 |
| Less: | | |
| Restricted bank deposits | **(23,226)** | (23,000) |
| Bank deposits with original maturity over three months | **–** | (10,144) |
| Bank overdrafts | **(15,137)** | (11,522) |
| Cash and cash equivalents as stated in the condensed consolidated cash flow statement | **507,087** | 389,080 |

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 30 June 2018*

### 1. BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements ("interim financial statements") have been prepared in accordance with the requirements of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and Hong Kong Accounting Standard No. 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The accounting policies and methods of computation used in the preparation of the interim financial statements are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2017 except that the Group has adopted the new and revised Hong Kong Financial Reporting Standards ("HKFRSs"), which are effective for the annual period beginning on 1 January 2018, as disclosed in the annual financial statements for the year ended 31 December 2017. The adoption of these new and revised HKFRSs does not have significant impact on the Group's results of operations and financial position.

These interim financial statements should be read, where relevant, in conjunction with the 2017 annual financial statements of the Group.

#### 1.1 Changes in accounting policies

The HKICPA has issued a number of new and revised HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. The Group has adopted the following new and revised HKFRSs, which include all HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the HKICPA, for the first time for the interim financial statements for the six months ended 30 June 2018. Such HKFRSs have become effective for the annual periods beginning on or after 1 January 2018. Of these, the following developments are relevant to the Group's financial statements:

HKFRS 9, *Financial instruments*
HKFRS 15, *Revenue from contracts with customers*
HK(IFRIC) 22, *Foreign currency transactions and advance consideration*

**HKFRS 9, *Financial instruments***

The adoption of HKFRS 9 has resulted in the following change in accounting policies for available-for-sale financial assets:

Previously, the changes in fair value of available-for-sale financial assets were recognised in other comprehensive income.

Upon the adoption of HKFRS 9, available-for-sale financial assets are measured at fair value through profit or loss ("FVTPL"). The changes in fair value are recognised in profit or loss.

The above change in accounting policy has been applied retrospectively and the comparative figures are not restated in accordance with the transitional provisions of the HKFRS 9.

## 1. BASIS OF PREPARATION (Continued)

### 1.1 Changes in accounting policies (Continued)

**HKFRS 9, *Financial instruments* (Continued)**

The following table summarises the impact of transition to HKFRS 9 on retained profits and available-for-sale financial assets revaluation reserve at 1 January 2018.

| | **2018**<br>**Unaudited**<br>***HK$'000*** |
|---|---|
| **Retained profits** | |
| Transferred from available-for-sale financial assets revaluation reserve relating to financial assets now measured at FVTPL | **89,307** |
| Net increase in retained profits at 1 January 2018 | **89,307** |
| **Available-for-sale financial assets revaluation reserve** | |
| Transferred to retained profits relating to financial assets now measured at FVTPL | **(89,307)** |
| Net decrease in available-for-sale financial assets revaluation reserve at 1 January 2018 | **(89,307)** |

HKFRS 9 categorises financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income ("FVOCI") and at FVTPL. These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVTPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

The following table shows the original measurement category for available-for-sale financial assets under HKAS 39, *Financial instruments: recognition and measurement* and reconciles the carrying amounts of those financial assets determined in accordance with HKAS 39 to those determined in accordance with HKFRS 9.

| | HKAS 39 carrying amount at 31 December 2017<br>*HK$'000* | Reclassification<br>*HK$'000* | HKFRS 9 carrying amount at 1 January 2018<br>HK$'000 |
|---|---|---|---|
| **Financial assets measured at FVOCI** | | | |
| Available-for-sale financial assets | 106,902 | (106,902) | – |
| **Financial assets measured at FVTPL** | | | |
| Available-for-sale financial assets | – | 106,902 | 106,902 |

## 1. BASIS OF PREPARATION (Continued)

### 1.1 Changes in accounting policies (Continued)

**HKFRS 15, *Revenue from contracts with customers***

HKFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. HKFRS 15 replaces HKAS 18, *Revenue*, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction contracts*, which specified the accounting for revenue from construction contracts.

Further details of the nature and effect of the changes on previous accounting policies are set out below:

*(a) Timing of revenue recognition*

Previously, revenue arising from construction contracts and provision of services recognised over time, whereas revenue from the sale of goods was generally recognised at a point in time when the risks and rewards of ownership of the goods had passed to the customers.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time. HKFRS 15 identifies the following three situations in which control of the promised good or service is regarded as being transferred over time:

(a) When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

(b) When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

(c) When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these three situations, then under HKFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that will be considered in determining when the transfer of control occurs.

*(b) Significant financing component*

HKFRS 15 requires an entity to adjust the transaction price for the time value of money when a contract contains a significant financing component, regardless of whether the payments from customers are received significantly in advance of revenue recognition or significantly deferred.

The adoption of HKFRS 15 does not have a significant impact on the accounting policies of the Group when the Group recognises revenue for the sale of goods or services.

The adoption of the above new and revised HKFRSs has no significant impact on the accounting policies of the Group, the methods of computation used in the preparation of the Group's interim financial statements and the Group's results of operations and financial position.

## 2. REVENUE AND SEGMENTAL INFORMATION

An analysis of the Group's consolidated revenue and contribution to profit/(loss) from operations by principal activity and geographical location for the six months ended 30 June 2018 and 2017 is as follows:

| | Trading and manufacturing | | Property investment and development | | Agriculture and forestry | | Investment holding | | Group | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| **Segment revenue** | | | | | | | | | | |
| External sales | **1,362,304** | 1,254,733 | **106,342** | 92,774 | **2,301** | 8,563 | **–** | – | **1,470,947** | 1,356,070 |
| **Segment results** | **(64,307)** | 7,215 | **239,086** | 197,695 | **(32,213)** | (24,114) | **(53,102)** | (69,150) | **89,464** | 111,646 |
| Reconciliation: | | | | | | | | | | |
| – Share of profits and losses of associates | **–** | (622) | **–** | – | **–** | – | **(12)** | 2 | **(12)** | (620) |
| – Share of profits and losses of joint ventures | **–** | – | **–** | – | **–** | – | **(6)** | – | **(6)** | – |
| – Reversal of impairment of advances to an associate | **–** | 1 | **–** | – | **–** | – | **–** | – | **–** | 1 |
| – Finance costs | | | | | | | | | **(66,299)** | (61,512) |
| **Profit before tax** | | | | | | | | | **23,147** | 49,515 |

By geographical location[#]:

| | Revenue | | Contribution to profit/(loss) from operations | |
|---|---|---|---|---|
| | Six months ended 30 June | | Six months ended 30 June | |
| | **2018** | 2017 | **2018** | 2017 |
| | **Unaudited** | Unaudited | **Unaudited** | Unaudited |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| The PRC including Hong Kong and Macau | **183,094** | 178,587 | **160,258** | 113,661 |
| United States of America | **716,129** | 653,643 | **(34,287)** | (6,187) |
| Europe | **290,683** | 256,965 | **(18,867)** | 2,171 |
| Japan | **23,937** | 28,993 | **(1,598)** | 292 |
| Others | **257,104** | 237,882 | **(16,042)** | 1,709 |
| | **1,470,947** | 1,356,070 | **89,464** | 111,646 |

[#] Revenue by geographical location is determined on the basis of the location where merchandise is delivered and/or service is rendered.

## 2. REVENUE AND SEGMENTAL INFORMATION (Continued)

The following table presents the assets and liabilities information for the Group's business segments as at the reporting period end date:

| | Trading and manufacturing | | Property investment and development | | Agriculture and forestry | | Investment holding | | Group | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **30 June 2018** | 31 December 2017 | **30 June 2018** | 31 December 2017 | **30 June 2018** | 31 December 2017 | **30 June 2018** | 31 December 2017 | **30 June 2018** | 31 December 2017 |
| | **Unaudited** | Audited | **Unaudited** | Audited | **Unaudited** | Audited | **Unaudited** | Audited | **Unaudited** | Audited |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| **Segment assets** | **2,082,149** | 2,045,659 | **10,797,633** | 10,457,407 | **159,427** | 158,722 | **237,523** | 241,756 | **13,276,732** | 12,903,544 |
| Investments in associates | **22** | 22 | **–** | – | **–** | – | **–** | 1,352 | **22** | 1,374 |
| Investments in joint ventures | **–** | – | **–** | – | **–** | – | **2,250** | – | **2,250** | – |
| Tax recoverable | | | | | | | | | **65,439** | 57,300 |
| **Total assets** | | | | | | | | | **13,344,443** | 12,962,218 |
| **Segment liabilities** | **2,723,204** | 2,494,522 | **3,540,984** | 3,332,765 | **34,077** | 25,525 | **15,319** | 12,794 | **6,313,584** | 5,865,606 |
| Tax payable | | | | | | | | | **47,535** | 54,998 |
| Deferred tax liabilities | | | | | | | | | **904,545** | 904,094 |
| **Total liabilities** | | | | | | | | | **7,265,664** | 6,824,698 |

## 3. DEPRECIATION AND AMORTISATION

Depreciation in respect of the Group's property, plant and equipment and bearer plants and amortisation in respect of the Group's prepaid land lease payments for the six months ended 30 June 2018 amounted to approximately HK$25,266,000 (six months ended 30 June 2017: HK$25,262,000) and HK$24,372,000 (six months ended 30 June 2017: HK$22,556,000), respectively.

## 4. INCOME TAX

Income tax comprises current and deferred tax.

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 June 2017: 16.5%) on the estimated assessable profit arising in or derived from Hong Kong. Taxes on profits assessable elsewhere have been calculated on the estimated assessable profit at rates of taxation prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

## 5. INTERIM DIVIDEND

The Board resolved not to declare the payment of an interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: Nil).

## 6. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of approximately HK$10,246,000 (six months ended 30 June 2017: approximately HK$42,605,000) and the weighted average numbers of ordinary shares used in the calculation are as follows:

| Earnings | **2018**<br>**Unaudited**<br>***HK$'000*** | 2017<br>Unaudited<br>*HK$'000* |
|---|---|---|
| Profit attributable to equity shareholders of the Company used in basic and diluted earnings per share calculation | **10,246** | 42,605 |

| Shares | **2018**<br>**Unaudited**<br>***'000*** | 2017<br>Unaudited<br>*'000* |
|---|---|---|
| Weighted average number of ordinary shares in issue less shares held for share award scheme during the period used in the basic earnings per share calculation | **12,982,892** | 12,981,636 |
| Effect of redeemable convertible preference shares | **820,950** | 849,560 |
| Effect of shares held for the share award scheme | **206,161** | 207,417 |
| Weighted average number of ordinary shares used in the diluted earnings per share calculation | **14,010,003** | 14,038,613 |

The Company's share options have no dilution effect for the six months ended 30 June in both 2018 and 2017 as the exercise price of the Company's share option was higher than the average market price of the shares in both periods.

## 7. INVESTMENT PROPERTIES AND NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

During the six months ended 30 June 2018, certain properties of the Group with an aggregated value of HK$1,627,000,000 have been transferred from non-current assets classified as held for sale to investment properties.

## 8. TRADE RECEIVABLES

Trade receivables of approximately HK$567,723,000 as at 30 June 2018 (as at 31 December 2017: HK$538,310,000), substantially with an age within six months, are stated net of provision for impairment.

Impairment is recognised when there is objective evidence that the Group will not be able to collect the amounts due according to the original terms of the receivables.

The Group's trading terms with its customers are mainly on credit with credit periods normally ranging from period of one to three months depending on a number of factors including trade practice, collection history and location of customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to monitor credit risk. Overdue balances are reviewed regularly by senior management.

## 9. TRADE PAYABLES

Trade payables of approximately HK$627,240,000 as at 30 June 2018 (as at 31 December 2017: HK$668,987,000) are substantially with an age within six months.

## 10. SHARE CAPITAL

| | **30 June 2018 Unaudited *HK$'000*** | 31 December 2017 Audited *HK$'000* |
|---|---|---|
| Authorised: | | |
| 20,000,000,000 ordinary shares of HK$0.01 each | **200,000** | 200,000 |
| 3,000,000,000 redeemable convertible preference shares of HK$0.02 each *(Note 1)* | **60,000** | 60,000 |
| Total authorised capital | **260,000** | 260,000 |
| Issued and fully paid: | | |
| 13,221,302,172 (2017: 13,221,302,172) ordinary shares of HK$0.01 each | **132,213** | 132,213 |
| 404,315,131 (2017: 410,475,131) redeemable convertible preference shares ("CPSs") of HK$0.02 each | **8,086** | 8,210 |
| Total issued and fully paid capital | **140,299** | 140,423 |

*Notes:*

(1) The redeemable convertible preference shares are redeemable at the sole discretion of the Company at any time after the issuance thereof. Holders of the redeemable convertible preference shares shall be entitled to pro-rata share of dividend or distribution declared by the board of directors of the Company, at its discretion, to the ordinary shareholders of the Company. Dividends or distributions payable to the holders of the redeemable convertible preference shares are not cumulative. The redeemable convertible preference shares shall not confer on the holders thereof the right to receive notice of, or to attend and vote at, general meeting of the Company unless a resolution is proposed to vary or abrogate the rights or privileges of the holders of the redeemable convertible preference shares or for winding-up the Company. The redeemable convertible preference shares rank prior to the ordinary shares on distribution of assets on liquidation, winding-up or dissolution of the Company to the extent of the amount equal to the aggregate issue price of the relevant redeemable convertible preference shares. The remaining assets shall belong to and be distributed on a pari passu basis among the holders of the ordinary shares.

(2) Pursuant to the resolution passed at the extraordinary general meeting of the Company held on 23 December 2016, bonus shares were issued to shareholders whose names appeared on the register of members of the Company on 5 January 2017, the Record Date, on the below basis:

(a) every four existing shares held by the ordinary shareholders whose names appear in the register of members of the Company on the Record Date; or

(b) every four shares that could be converted on an "as converted" basis as if all the outstanding CPSs held by the CP Shareholder(s), whose name(s) appear(s) in the register of CP Shareholders of the Company on the Record Date, were converted in full at their effective conversion price immediately before the Record Date.

Upon completion of bonus issue on 9 January 2017, an amount of HK$28,141,849 standing to the credit of the share premium account was applied to pay up 2,814,184,886 ordinary shares of HK$0.01 each which were allotted and issued as fully paid, ranking pari passu with existing shares to the shareholders.

## 10. SHARE CAPITAL (Continued)

Movements of issued capital were as follows:

| | Issued ordinary shares Unaudited *HK$'000* | Issued redeemable convertible preference shares Unaudited *HK$'000* | Share premium Unaudited *HK$'000* | Total Unaudited *HK$'000* |
|---|---|---|---|---|
| At 1 January 2018 | **132,213** | **8,210** | **1,716,567** | **1,856,990** |
| 6,160,000 redeemable convertible preference shares redeemed during the period | **–** | **(124)** | **(4,804)** | **(4,928)** |
| At 30 June 2018 | **132,213** | **8,086** | **1,711,763** | **1,852,062** |

| | Issued ordinary shares Audited *HK$'000* | Issued redeemable convertible preference shares Audited *HK$'000* | Share premium Audited *HK$'000* | Total Audited *HK$'000* |
|---|---|---|---|---|
| At 1 January 2017 | 104,071 | 8,496 | 1,755,891 | 1,868,458 |
| 14,336,000 redeemable convertible preference shares redeemed during the year | – | (286) | (11,182) | (11,468) |
| 2,814,184,886 bonus shares issued during the year *(Note 2)* | 28,142 | – | (28,142) | – |
| At 31 December 2017 | 132,213 | 8,210 | 1,716,567 | 1,856,990 |

## 10. SHARE CAPITAL (Continued)

Movement of number of issued shares are as follows:

| | Number of issued ordinary shares Unaudited *'000* | Number of issued redeemable convertible preference shares Unaudited *'000* |
|---|---|---|
| At 1 January 2018 | **13,221,302** | **410,475** |
| Redeemed during the period | **–** | **(6,160)** |
| At 30 June 2018 | **13,221,302** | **404,315** |

| | Number of issued ordinary shares Audited *'000* | Number of issued redeemable convertible preference shares Audited *'000* |
|---|---|---|
| At 1 January 2017 | 10,407,117 | 424,811 |
| Redeemed during the year | – | (14,336) |
| Issue of bonus shares during the year *(Note 2)* | 2,814,185 | – |
| At 31 December 2017 | 13,221,302 | 410,475 |

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL SUMMARY AND KEY PERFORMANCE INDICATORS

The Group recorded revenue of HK$1.47 billion (2017: HK$1.36 billion) and profit after tax of HK$10.5 million (2017: HK$37.2 million), both being the financial key performance indicators, for the six months ended 30 June 2018, representing a 8% increase and a 72% decrease as compared with corresponding amounts reported in 2017. Earnings per share attributable to equity holders of the Company for the period was HK0.1 cents (2017: HK0.3 cents).

### BUSINESS REVIEW

The principal businesses of the Group include trading and manufacturing, property investment and development, agriculture and forestry.

#### Trading and Manufacturing

The trading and manufacturing segment mainly comprises (i) OEM manufacturing of toys products, and (ii) trading of footwear products. The segment recorded a 9% increase in revenue to HK$1.36 billion (2017: HK$1.25 billion) and operating loss of HK$64.3 million (2017: operating gain of HK$7.2 million) for the period ended 30 June 2018.

***(i) OEM toys manufacturing***

The OEM toys operation achieved a record-breaking first half revenue of HK$1.2 billion, representing a 5% increase compared to corresponding period in last year. The growth was mainly attributable to the ongoing improvement in our provision of one-stop integrated solutions to customers and therefore we have been continuously winning trusts and business from them. Many of the products manufactured by us for our customers also have been awarded world-acclaimed recognitions and awards.

While increasing production, the Group provided a high quality on time delivery of products to our customers throughout the period and this is mainly attributable to the professionalism of our R&D and engineering department in providing continuous modification and technological solutions.

Despite increase in revenue, the operating profit however decreased mainly due to the combined effect of increasing raw material and labour costs and lower-than-expected efficiency due to continuous growth in sales and production volume in the first half of 2018. We are currently optimising our production capability and capacity with new productions in more factory locations. The new factories in Guangxi and Dongguan opened in last two years shall be able to cope with the increase in production and to provide a base with lower labour costs.

***(ii) Trading of footwear products***

During the period ended 30 June 2018, revenue from the footwear trading operations increased by 49% to HK$153.1 million, mainly attributable to increase in sales volume from customers. The overall results from operations has turned into a profit of HK$5.0 million as compared to a loss of HK$4.9 million in the corresponding period in 2017 due to a bad debt provided in corresponding period of last year.

**Property Investment and Development**

During the period ended 30 June 2018, revenue from the property investment and development segment increased by 15% to HK$106.3 million. The operating profit, which includes fair value gain on investment properties, increased by 21% to HK$239.1 million in current period.

Rental income remained stable in the current period and was mainly contributed by the Avenue of Stars ("AOS"), a fur-themed shopping mall with varieties of major fur brands in Shenyang. It has continued to be one of the most reputable and successful fur mall in Liaoning and has a significant share of the fur retail market. Furthermore, our rental portfolio in Tianjin and Nanjing also reported an increase in rental income during the period. The growth primarily came from increment in rental rates in Nanjing and Tianjin.

In addition to our existing rental portfolios, we continue to focus in and develop our property project in Shenyang. The project, located on the very eastern part of the most robust pedestrian street of the North-East known as Zhongjie (中街) of Dadong district, is named the Central Square. The project is also situated right above line 1 of the mass transit railway and will also be potentially intersected with line 6 which is to be constructed in next few years.

The project involves a total Gross Floor Area ("GFA") of over 500,000 square metres and is a mixed-use project with a heavy emphasis on city living and convenience to the residents. The first phase of the Central Square with an approximate salable GFA of 140,000 square metres, comprises two residential towers, one serviced apartment tower and a retail podium. The construction work of underground space, commercial podium and the sales office were completed in 2016; the construction of residential and serviced apartment towers are well underway and in the process of completion as scheduled. As at the date of this report, over 70% of one residential and serviced apartment towers have been sold; it is expected we will launch the selling of the remaining units of the two towers in the second half of the year. With its prime location situated right above a mass transit railway line and potential intersection with another one, together with a robust pedestrian street, it is envisioned that the Central Square will become a must-go place for retailers, consumers and local residents.

**Agriculture and Forestry**

During the period ended 30 June 2018, revenue from the segment decreased by 73% to HK$2.3 million and operating loss increased to HK$32.2 million as compared with corresponding period in 2017. This is mainly attributable to decrease in sales from livestock and exchange loss from RMB depreciation. The balance of bearer plants decreased from HK$63.5 million in December 2017 to HK$61.5 million in June 2018 mainly due to depreciation in current period.

**LIQUIDITY AND FINANCIAL RESOURCES**

As at 30 June 2018, the Group had a current ratio of 1.3 and a gearing ratio of 41% (31 December 2017: 1.9 and 42%, respectively). The gearing ratio is computed by comparing the Group's long-term bank borrowings of HK$2.5 billion to the Group's equity of HK$6.1 billion. The Group's operations and investments continued to be financed by internal resources and bank borrowings.

## EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

The Group operates in Hong Kong and Mainland China and is exposed to foreign exchange risk arising from various currency exposures primarily with respect to Renminbi and United States dollars. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in operations in Mainland China. The Group manages foreign exchange risk by closely monitoring the movements of the foreign currency rates and enters into forward contracts whenever appropriate.

## CAPITAL STRUCTURE

Except for the redemption of the redeemable convertible preference shares as detailed in note 10 to the interim report, there was no material change in the Group's capital structure as compared to the most recently published annual report.

## MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

There was no material acquisition or disposal of subsidiary or associated company during the period.

## PLEDGE OF ASSETS AND CONTINGENT LIABILITIES

There was no material change in the Group's pledge of assets and contingent liabilities as compared to the most recently published annual report.

## EMPLOYEES

As at 30 June 2018, the total number of employees of the Group was approximately 24,000 (30 June 2017: 29,000).

Employees' costs (including directors' emoluments) amounted to approximately HK$633.8 million for the six months ended 30 June 2018 (six months ended 30 June 2017: HK$601.6 million).

In addition to salary, other fringe benefits such as medical subsidies, provident fund and subsidised training programs are offered to employees of the Group. The Group also operates share option and share award schemes, and may, at its discretion, grant share option or award shares to its employees under respective schemes.

Performance of the employees is normally reviewed on an annual basis with adjustment compatible to the market. Individual employees may also receive a discretionary bonus at the end of each year based on his/her performance.

## PROSPECTS

### Trading and Manufacturing

The Group will continue its effort to fine tune its pricing strategy in response to increasing raw material and labour costs, expand product range and enlarge customer base with a continuous focus on better automation, cost control, time to market production and providing our one-stop integrated solutions and services to customers.

We will focus in consolidating our existing orders, rather than pursuing tremendous growth in revenue which we have achieved in last few years. We will continue to explore possibility on producing new products according to the market trend. We will keep the successful accomplishment on production of award-winning toys; and high-tech toys such as robots, drone and sensing devices wifi, bluetooth and other mediums.

The Group has traditionally invested heavily in the R&D and engineering department and will increase its capital investment into developing new technology and manufacturing advances to increase investment on process technology and upgrade mechanical automation of high-tech toys. We have set up the Wah Shing Academy in 2017 to provide continuous education, collaboration of know-how and to further emphasize lean manufacturing. Management will seek to expand research departments and collaborations with various academic institutions with China to further increase its competitiveness and expertise in this field. We will also get our Wah Shing Academy accreditation with various reputable institutions.

Furthermore, the Group will further expand its production capacity in addition to the two new factories in Guangxi and Dongguan opened in 2016 and 2017, and has identified a few suitable existing plants to support our business growth in future.

Management holds positive view on the revenue growth in 2018 while at the same time revamp the Dongguan plant to replace high cost location area and continue to be cost conscious in improving operation efficiency and our service to clients.

### Property Investment and Development

#### *Property Investments*

The Group has a property investment portfolio with total floor area of approximately 580,000 square metres in Mainland China and 280,000 square feet (approximately 26,000 square metres) in Hong Kong. The investment properties in China are mostly in prime locations in Nanjing, Shenyang and Tianjin.

With the management team effort, the Avenue of Stars has become a major fur-themed shopping mall in Shenyang and the management team will continue to increase the pedestrian flow so as to further increase its rental contribution in the future. We will continue to market Avenue of Stars as the leading fur mall in Northern China and will build upon the significant market share that we have managed to capture over the last few years.

Nanjing and Tianjin rental portfolio is expected have an upside in next two years as we are in progress in implementing our commercialisation strategy across the portfolio.

Meanwhile, the Group is actively considering offload non-core and low-contribution properties in Hong Kong and in the PRC in order to reallocate resources to more promising investment properties or land banks.

***Property Development***

The construction work of the first phase of the Central Square in the Southern part of our Dadong site in Shenyang is well underway and in the process of completion as scheduled. With its prime location situated right above one mass transit railway line and potential intersection with another line, together with a robust pedestrian street, the Central Square will become a prime shopping and residential area in Shenyang with a mix of trendy bars and restaurants, boutiques, department stores, shopping malls and hotels. Management is cautiously optimistic on the contributions from the project in the second half of 2018 and 2019.

The second phase of the Central Square in the Northern part of Dadong site, which is directly opposite from the pedestrian street to the above, is in the process of re-settling non-residential units. It is also a mixed development project, and the positioning will be thematically in line with the South, with a slightly higher class distinction.

Our land bank in the Tianjin Wuqing district provides us with a potential site area of over 200,000 square metres, with approximately 88,000 square metres having paid the land premium and has recently commenced its feasibility study and development plan. In light of the development of the capital economic circle concept (京津冀首都經濟圈) and that the Tianjin government (天津市政府) had announced the plan to develop the Wuqing district into a university zone (京津冀協同發展國家大學創新園區) which is nearby our development site, we are cautiously optimistic to its future contributions.

Nanjing and Tianjin industrial land use conversion to commercial will continue to be our area of focus. Our property development team will be contributing to successful future conversions.

**Agriculture and Forestry**

The Group currently has long-term leases of over 540,000 mu (approximate to 333 million square metres) of woodland, farmland, fishpond and lake space in various major provinces in China, and is focusing on the plantation of fruits and crops such as apple, winter date, peach, pear and corn; and breeding of livestock such as pig for sale. The Group will continue to explore plantation opportunities for high profit margin species and focus on improving the sales distribution channels so as to improve the revenue and also the operating results of the segment.

Management will continue their effort in cost control and efficient resources utilisation with a view to containing costs.

**PRINCIPAL RISKS AND UNCERTAINTIES**

The following section lists out the key risks and uncertainties facing the Group. It is a non-exhaustive list and there may be other risks and uncertainties additional to the key risk areas outlined below.

**Risks relating to Trading and Manufacturing**

***Macroeconomic environment***

The Group designs and manufactures a wide variety of toys, shoes and other leather products. Our customers sell such products worldwide to the end customers. The Group's financial performance, therefore, hinges on the level of discretionary consumer spending in the markets in which our products are eventually sold. Recessions, credit crises and other economic downturns can result in less consumer disposable income and lower consumer confidence. These factors can reduce orders from our customers.

***Cost increase***

Cost increases, whether resulting from rising costs of materials, transportation, minimum wage legislations in Mainland or compliance with existing or future regulatory requirements could impact the profit margins realised by the Group on the sale of its products. In addition, the Group could be the subject of future product liability suits or product recalls, which could harm our business.

**Risks relating to Property Investment and Development**

***Risks associated with the property market in Mainland China***

A significant part of the Group's property portfolio is located in Mainland China and is therefore subject to the risks associated with China's property market. The Group's operations in Mainland China may also be exposed to the risks of policy change, RMB exchange rate change, interest rate change, demand-supply imbalance, and the overall economic conditions, which may pose an adverse impact on the Group's business, financial condition or results of operations.

***Risks associated with the property market in Hong Kong***

The state of Hong Kong's economy and property market, legislative and regulatory changes, government policies and political conditions also have an effect on the Group's revenue derived from the Group's property portfolio in Hong Kong. The government may introduce property cooling measures from time to time. Rental levels in Hong Kong are subject to competition arising from supply in the primary sector.

**Risks relating to Agriculture and Forestry**

***Risk associated with natural disasters or adverse weather conditions***

The Group's agriculture and forestry operations are susceptible to natural disasters and adverse weather conditions such as droughts, floods and earthquakes, and environmental hazards. The occurrence of any of the above events in or in close proximity to our cultivation area may cause a reduction or delay in our production output, which may adversely affect the Group's business and operating performance.

The Group will conduct regular reviews and focus on mitigating the risks exposure of each business unit.

**INTERIM DIVIDEND**

The Board resolved not to declare the payment of an interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: Nil).

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2018, the interests and short positions of the directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the laws of Hong Kong (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules were as follows:

### Long positions in ordinary shares of the Company

| | Ordinary shares | | | | |
|---|---|---|---|---|---|
| **Beneficial interests** | **Personal interests** *(Note 1)* | **Family interests** | **Corporate interests** | **Total number of shares held** | **Approximate percentage of shareholding to total issued ordinary shares** |
| Ng Hung Sang ("Mr. Ng") | 650,603,514 | 613,214,065 *(Note 2)* | 7,097,670,709 *(Note 3)* | 8,361,488,288 | 63.24% |
| Cheung Choi Ngor ("Ms. Cheung") | 50,000,000 | – | – | 50,000,000 | 0.38% |
| Ng Yuk Fung Peter ("Mr. Peter Ng") | 652,740,810 | – | – | 652,740,810 | 4.94% |
| Ng Yuk Yeung Paul ("Mr. Paul Ng") | 171,989,238 | – | – | 171,989,238 | 1.30% |
| Ng Yuk Mui Jessica ("Ms. Jessica Ng") | 170,700,000 | – | – | 170,700,000 | 1.29% |

### Long positions in ordinary shares of associated corporation

| **Beneficial interests** | **Name of associated corporation** | **Number of ordinary shares held by controlled corporation** | **Approximate percentage of shareholding to total issued ordinary shares** |
|---|---|---|---|
| Mr. Ng | Prime Prospects Limited ("Prime Prospects") *(Note 4)* | 30 | 30% |

*Notes:*

(1) The shares are registered under the names of the directors who are the beneficial shareholders.

(2) The spouse of Mr. Ng is the beneficial shareholder.

(3) The 7,097,670,709 shares of the Company held by Mr. Ng through controlled corporations included 2,124,792,202 shares held by Fung Shing Group Limited ("Fung Shing"), 2,020,984,246 shares held by Parkfield Holdings Limited ("Parkfield"), 89,410,210 shares held by Ronastar Investments Limited ("Ronastar"), 1,344,706,920 shares held by Earntrade Investments Limited ("Earntrade"), 1,273,122,098 shares held by Bannock Investment Limited ("Bannock"), 212,405,565 shares held by Crystal Hub Limited ("Crystal Hub") and 32,249,468 shares held by Green Orient Investments Limited ("Green Orient"). Fung Shing, Parkfield and Ronastar all are wholly-owned by Mr. Ng. Bannock is a wholly-owned subsidiary of Earntrade which is owned as to 60% by Mr. Ng, 20% by Mr. Richard Howard Gorges ("Mr. Gorges") and 20% by Ms. Cheung. Crystal Hub is a direct wholly-owned subsidiary of South China Assets Holdings Limited ("SCAH"), which, in turn, is 64.92% beneficially owned by Mr. Ng. Green Orient is an indirect wholly-owned subsidiary of the Company. As such, Mr. Ng was deemed to have interest in the said 212,405,565 shares held by Crystal Hub, 32,249,468 shares held by Green Orient and the 2,617,829,018 shares held by Bannock and Earntrade.

(4) Prime Prospects is a 70% owned subsidiary of the Company.

Apart from the foregoing, none of the directors and chief executives of the Company or any of their spouses or children under eighteen years of age had interests or short positions in the shares, underlying shares or debentures of the Company, or any of its holding company, subsidiaries or other associated corporations, as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company pursuant to the Model Code, at 30 June 2018.

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

The Company has been notified of the following interests in its issued shares at 30 June 2018 amounting to 5% or more of the ordinary shares in issue:

| | Ordinary shares | | | | |
|---|---|---|---|---|---|
| **Beneficial interests** | **Registered shareholders** | **Family interests** | **Corporate interests** | **Total number of ordinary shares held** | **Approximate percentage of shareholding to total issued ordinary shares** |
| Earntrade | 1,344,706,920 | – | 1,273,122,098 *(Note 1)* | 2,617,829,018 | 19.80% |
| Bannock | 1,273,122,098 *(Note 1)* | – | – | 1,273,122,098 | 9.63% |
| Fung Shing | 2,124,792,202 | – | – | 2,124,792,202 | 16.07% |
| Parkfield | 2,020,984,246 | – | – | 2,020,984,246 | 15.29% |
| Ng Lai King Pamela ("Ms. Ng") | 613,214,065 | 7,748,274,223 *(Note 2)* | – | 8,361,488,288 | 63.24% |

*Notes:*

(1) Bannock is a wholly-owned subsidiary of Earntrade. The 2,617,829,018 shares of the Company held by Earntrade included 1,273,122,098 shares held by Bannock directly.

(2) Ms. Ng, who held 613,214,065 shares of the Company directly, is the spouse of Mr. Ng, the Chairman and an Executive Director of the Company. By virtue of the SFO, Ms. Ng was deemed to be interested in the 650,603,514 shares and 7,097,670,709 shares held by Mr. Ng directly and indirectly through controlled corporations, respectively, as disclosed in the section headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" in the above.

Apart from the foregoing, as at 30 June 2018, no person, other than the directors and chief executives of the Company, whose interests are set out in the section headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" in the above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to section 336 of the SFO.

## SHARE OPTION SCHEME

The Company adopted a share option scheme in June 2012 ("Share Option Scheme") for the purpose of providing incentives and rewards to eligible participants, who contribute to the success of the Group's operations, and retaining such participants for their continuing support to the Group. The share options granted under the above scheme are unlisted.

### Share Option Scheme

Particular and movements of the outstanding share options granted under the Share Option Scheme during the six months ended 30 June 2018 as follows:

| | Number of share options | | | | | | |
|---|---|---|---|---|---|---|---|
| **Name or category of participant** | **Outstanding as at 1 January 2018** | **Granted/ (Lapsed) during the period** | **Outstanding as at 30 June 2018** | **Date of grant of share options** (DD/MM/YYYY) *(Note 1)* | **Exercise period of share options** (DD/MM/YYYY) | **Number of ordinary shares issuable upon the exercise of share options** *(Note 2)* | **Exercise price per share** *HK$* *(Note 2)* |
| **Employees** | | | | | | | |
| In aggregate | 7,750,000 | (1,000,000) | 6,750,000 | 10/07/2015 | 10/07/2016–09/07/2025 | 17,150,400 | 0.51 |
| | 7,750,000 | (1,000,000) | 6,750,000 | 10/07/2015 | 10/07/2017–09/07/2025 | 17,150,400 | 0.51 |
| | 7,250,000 | (500,000) | 6,750,000 | 10/07/2015 | 10/07/2018–09/07/2025 | 17,150,400 | 0.51 |
| | 8,965,000 | (8,965,000) | – | 20/10/2015 | 20/10/2017–19/10/2025 | – | 0.51 |
| | 8,965,000 | (8,965,000) | – | 20/10/2015 | 20/10/2018–19/10/2025 | – | 0.51 |
| | 11,956,368 | (11,956,368) | – | 20/10/2015 | 20/10/2019–19/10/2025 | – | 0.51 |
| **Total** | 52,636,368 | (32,386,368) | 20,250,000 | | | 51,451,200 | |

*Notes:*

(1) All share options granted are subject to a vesting period and exercisable in the following manner:

| From the date of grant of share options | Exercisable percentage |
|---|---|
| Within 12 months | Nil |
| 13th month–24th month | not more than $33^1/_3$% |
| 25th month–36th month | not more than $66^2/_3$% |
| 37th month–120th month | 100% |

(2) The number of shares issuable and the exercise price of the share option are subject to adjustment in case of rights or bonus issues, or other alteration in the capital structure of the Company, as such, adjustments had been made upon completion of bonus issue completed on 9 January 2017. Details of the bonus issue were disclosed in the announcement and circular of the company dated 12 October 2016 and 7 December 2016 respectively.

Equity-settled share award/option expense of HK$1,396,000 was recognised by the Company during the six months ended 30 June 2018 (six months ended 30 June 2017: HK$2,940,000).

**EMPLOYEES' SHARE AWARD SCHEME**

On 18 March 2011, the Company adopted the share award scheme ("Share Award Scheme") whereby the Company may grant share awards to selected employees in recognition of their contributions to the Group and as incentive to retain them to support the operations and ongoing development of the Group and attract suitable personnel for the Group's further development. Pursuant to the terms and conditions of the Share Award Scheme, the Company shall settle a sum up to and not exceeding HK$60 million for the purchase of shares in the Company and/or SCAH from the market. Such shares shall form part of the capital of the trust set up for the Share Award Scheme. The Board may, from time to time, select employees for participation in the Share Award Scheme and cause to be paid an amount to the trustee from the Company's resources for the purpose of purchase of shares as referred to in the above. No shares had been awarded under the Share Award Scheme during the period. There was no change in the number of shares of the Company held under the Share Award Scheme as compared to the most recently published annual report.

**CORPORATE GOVERNANCE CODE**

The Company had complied with all the code provisions as set out in the Corporate Governance Code contained in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2018 except that Mr. Ng Hung Sang, the Chairman and an Executive Director of the Company, Ms. Cheung Choi Ngor, an Executive Director of the Company, Mr. Ng Yuk Fung Peter and Mr. David Michael Norman, both are Non-Executive Directors of the Company, were unable to attend the annual general meeting of the Company held on 14 June 2018, which deviated from code provision E.1.2 and A.6.7 as they had other important business engagements.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed shares of the Company during the six months ended 30 June 2018.

## UPDATE ON LITIGATION PROCEEDINGS

Regarding the litigation proceedings of (i) Against Nanjing Skytech Co., Limited and Others and (ii) Development Right of a Piece of Land situate at Tianjin Binhai New District, both cases had no material change as disclosed in the most recently published annual report.

## CHANGES IN INFORMATION IN RESPECT OF DIRECTORS

In accordance with Rule 13.51B(1), the changes in information required to be disclosed pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules during the course of the directors' terms of office for the period from the date of publication of the Company's latest annual report up to the date of this interim report are set out below:

Mr. Ng Yuk Fung Peter was re-designated from an Executive Director to a Non-executive Director. He had ceased to be an Executive Vice Chairman and a member of the executive committee of the Company and be entitled to a fixed remuneration of HK$100,000 per annum with effect from 16 May 2018.

Effective from 16 May 2018, Mr. Ng Yuk Yeung Paul, an Executive Director, an Executive Vice Chairman and a member of the executive committee of the Company, had been appointed as Co-chief Executive Officer of the Company and Ms. Cheung Choi Ngor, an Executive Director, Vice Chairman, Chief Executive Officer and a member of the executive committee of the Company, was re-designated from Chief Executive Officer to Co-chief Executive Officer of the Company, the terms of their services and remuneration remained unchanged.

## MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as its code of conduct regarding the directors' securities transactions. In addition, the Board has established similar guidelines for relevant employees who are likely to possess inside information in relation to the Group or its securities.

In response to the Company's specific enquiry, all directors of the Company confirmed that they have complied with the required standard set out in the Model Code regarding securities transactions by directors throughout the six months ended 30 June 2018.

## AUDIT COMMITTEE

The Company has established an Audit Committee with written terms of reference in compliance with the Listing Rules. The Audit Committee presently comprises four Independent Non-executive Directors, namely Mr. Kam Yiu Shing Tony (Chairman of the Committee), Mr. Chiu Sin Chun, Mrs. Tse Wong Siu Yin Elizabeth and Mr. Yip Dicky Peter, J.P. and a Non-executive Director, Mr. David Michael Norman.

The Group's unaudited interim report for the six months ended 30 June 2018 have been reviewed by the Audit Committee, which was of the opinion that the preparation had been complied with the applicable accounting standards and requirements and that adequate disclosures were made.

By Order of the Board
**South China Holdings Company Limited**
**南華集團控股有限公司**
**Ng Hung Sang**
*Chairman and Executive Director*

Hong Kong, 28 August 2018

*As at the date of this report, the directors are: (1) Mr. Ng Hung Sang, Ms. Cheung Choi Ngor, Mr. Richard Howard Gorges and Mr. Ng Yuk Yeung Paul as executive directors; (2) Ms. Ng Yuk Mui Jessica, Mr. Ng Yuk Fung Peter, Mr. David Michael Norman and Ms. Li Yuen Yu Alice as non-executive directors; (3) Mr. Chiu Sin Chun, Mrs. Tse Wong Siu Yin Elizabeth, Mr. Yip Dicky Peter, J.P., and Mr. Kam Yiu Shing Tony as independent non-executive directors.*